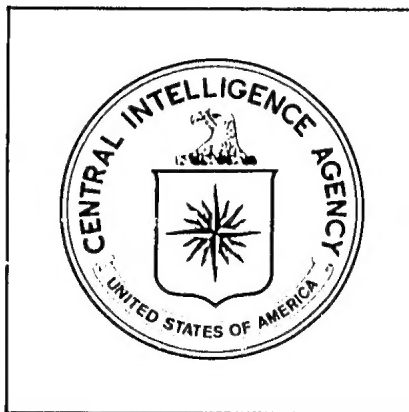


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Portuguese Leaders Reported Considering Reorganization

Reports that a move is under way to restructure the present military regime have been denied by the president's office. The denial may, however, mean only that military leaders want to scotch such rumors until the Revolutionary Council and the Armed Forces General Assembly have a chance to vote on the restructuring plan.

According to earlier reports received by the US embassy from several sources, including Minister of Information Jesuino, the revamped regime would be headed by an 11-man directorate drawn from the present ruling Revolutionary Council. The directorate--whose members have not been named--would be served by a three-man executive collegium composed of President Costa Gomes, Prime Minister Goncalves, and security chief Otelio de Carvalho.

The collegium, in turn, would be assisted by two vice prime ministers--one civilian and one military man--who would have charge of the day-to-day running of the provisional government. The present Revolutionary Council would be relegated to a pro forma role linked to the directorate.

Such a formula could streamline the present unwieldy governing machinery and, depending on the proposed composition of the 11-man directorate, might be acceptable to a battle-weary majority in the Revolutionary Council.

The reasons for the official denial are not yet clear. The reorganization proposals, which have been widely publicized by the international media, may have triggered an initial unfavorable response among opposition groups, including the Socialists.

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A meeting of the General Assembly, which has been postponed several times, was erroneously reported by the Lisbon press as scheduled for yesterday. This apparently was confused with a meeting of the army assembly, which is to be held today to prepare for a full assembly meeting on Friday. The army assembly reportedly is taking up the formation of the new government.

Meanwhile, the Socialists have called for a "government of national salvation," which is reminiscent of the "national salvation junta" formed immediately following the coup of April 1974. The Socialists also threatened to expel any party member who agrees to join a government headed by Goncalves.

Although we have seen no serious weakening on the part of the Socialist leadership's resolve to continue the struggle to oust the Prime Minister, party concern that Soares might not be able to retain full control of the membership may be borne out. According to sources of the US embassy, four renegade Socialists from the extreme left of the party have reportedly agreed to join the government that Goncalves is still trying to form.

Should the stalemate drag on much longer, there will be the growing risk that right-wing elements will be stirred into acts of violence or ill-planned moves similar to the fiasco last March. Any such attempt would likely serve the Communists in their effort to smear the Socialists' campaign as counterrevolutionary and could provide the government an excuse for another--and perhaps decisive--lurch to the left.

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Turkey and Greece Caught Between US and EC

Turkey and Greece are strongly urging that they not be denied access to the projected US scheme giving trade preferences to developing countries. To qualify for benefits from the US plan, Ankara and Athens must prove that their imports from the US do not suffer from existing preferential arrangements with the EC. Both countries want to retain, and even strengthen, their ties to the Community.

Turkey is arguing that, on balance, its existing association agreement with the EC has not damaged US exports and that, if Ankara does not benefit from US preferences, bilateral trade relations with the US will suffer. US exports to Turkey currently amount to about \$350 million a year.

Ankara is not happy now with the terms of its EC association, but does not want to abandon its long-term goal of full membership. Turkish officials believe that preferential treatment by the US would strengthen their hand in seeking a better deal from the EC. The Turks want from the Community greater freedom to trade with other countries, in particular the Arab and OPEC world.

Moreover, the Turks are worried that, in their relations with the EC, they may lose out to the Greeks, who have already requested full membership in the Community.

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The Greeks themselves have been placed in a dilemma by having to satisfy the US requirements for preferential status. Athens intends to develop the data which the US needs, but is clearly in something of a quandary over how to handle problems that may arise for their commitments to the EC.

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EC Moves on Raw Materials Policy

The EC Council concluded its last meeting of the summer by agreeing on guidelines for a community policy on raw materials. The guidelines will enable the community to present a common point of view at the 7th Special Session of the UN General Assembly, as well as at a subsequent conference of oil producers and consumers.

The Nine agreed to examine individual commodities to determine what, if any, kind of agreements between developed and developing states can be worked out. The community also agreed to endorse a plan to stabilize the export earnings of all developing states. The plan would be less generous than a similar scheme between the EC and 46 developing states under the Lome convention. The Nine further agreed that special consideration should be given to the needs of the least developed countries.

EC officials point out that details of the community's position have not been worked out and that the community will still lack specifics at the UN meeting in early September. The Nine plan to be ready to discuss details in time for the oil conference, which will examine problems related to other raw materials as well.

The EC guidelines are not fundamentally at odds with the thinking of other industrialized countries. The EC effort represents a compromise between those in the community who wanted to emphasize commodity agreements--France in particular--and those who prefer to emphasize income maintenance for developing states--the UK and West Germany.

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[redacted] the compromise was made possible by the discussions held last week in Brussels among EC heads of state. French President Giscard may have compromised on some of France's ideological attachment to commodity arrangements in return for Chancellor Schmidt's willingness to "examine" them. [redacted]

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[redacted]
the commitment to look at commodity agreements does not commit Bonn to participation.

Bonn has pushed for using gold held by the International Monetary Fund to finance a stabilization program in order to avoid a large direct payment. It remains questionable that Paris has changed its opposition to using IMF gold for such a purpose. [redacted]

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